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SUBJECT: SENEGAL COUNTING ON MITTAL TO JUMP-START THE COUNTRY'S MINING SECTOR

REF: 07 DAKAR 2268

DAKAR 00000227 001.2 OF 002

**¶1.** (U) SUMMARY: In a meeting with Econ Counselor, Mr. Birame Diouf, Managing Director of Miferso, Senegal's mining sector parastatal, explained details of Senegal's iron ore mining agreement with India's ArcelorMittal, as well as the status of a lawsuit brought by South Africa's Kumba Resources seeking compensation for that deal. Diouf discussed the local partner requirements in Senegal's 2007 revision of the mining code, and speculated on the future of the sector, including the important new investments by Australia's MDL, and likely changes at Miferso. END SUMMARY.

ARCELORMITTAL'S DEAL

**¶2.** (SBU) According to Birame Diouf, the Managing Director of Miferso, Senegal's mining sector counterpart parastatal, ArcelorMittal plans to invest around USD 2.2 billion into the Faleme site in southeastern Senegal, making it Senegal's largest ever industrial project. Miferso projects that Mittal will extract 25 million tons of iron ore per year and create up to 10,000 jobs by 2011 when full-scale production is projected to begin. This is one of Mittal's largest extraction projects, and the company has committed to significant improvements in roads from the mining areas and in the Tambacounda-Dakar rail link. In a recent television interview with a local station, the Chinese Ambassador to Senegal stated that Chinese firms tried to secure the rights to the Faleme iron but had "lost out" to Mittal.

**¶3.** (SBU) In its April, 2007 agreement with the GOS, Mittal reportedly agreed to pay five percent royalties on the extracted ore, even though Senegal's subsequent update of its mining code (passed in May 2007 specifically to help close the deal with Mittal) states that private investors need only pay three percent royalty. The company has begun detailed geologic surveys and test holes around the Faleme site. The final assessment of the ore within the concession will significantly impact the overall size of the investment. If the conclusion is that the concession holds more than a benchmark of 750 million MT, Mittal has committed to renovating the Tambacounda-Dakar rail line to standard gage; if the deposits are less the company will likely only improve the rail bed for the existing narrow-gage line.

**¶4.** (SBU) Diouf explained that Mittal has also agreed to finance the construction of a new jetty and bulk port facility at Bargny, approximately 30 km south of Dakar. According to Diouf, the jetty would likely extend more than 10km, and the port would have berths for a range of ships. Mittal would also have to build significant handling and storage facilities at the port. Diouf confirmed previous reports that Mittal will also consider building a

steel-rolling factory at the site should the Faleme deposits meet expectations.

#### KUMBA VERSUS MIFERSO

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¶5. (SBU) According to Diouf, in 1994 Miferso signed an agreement with the South African mining company Kumba Resources, granting the firm the pre-feasibility study rights to assess the iron ore deposits in the Faleme region, with an option for Kumba to acquire an 80 percent interest in the project. However, according to Diouf, Kumba failed to meet certain deadlines for moving forward. Diouf also claimed that Kumba was not willing to make the necessary investments in infrastructure improvements, and would only agree to extraction and storage and handling at the port. Kumba's proposal targeted at least 12 million tons a year over 20 years with an investment of USD 950 million.

¶6. (SBU) Therefore, Kumba accused Senegalese officials of violating its contractual rights when Miferso and the GOS signed its agreement with Mittal and subsequently ordered Kumba to withdraw its Faleme activities. After failing to reach a compromise in May 2007 through the Dakar Court of Arbitration, on December 31, 2007, Kumba opened a US \$667 million lawsuit against the Government of Senegal. Diouf claimed that his office had originally tried to mediate a joint venture agreement between Mittal and Kumba, since Mittal does not have extensive experience in mining operations. Even though that effort failed, Diouf noted that the government secured all of Kumba's documentation on exploration studies before the lawsuit.

¶7. (SBU) Diouf admitted that Kumba "could not win" in Senegalese courts, but also conceded that the GOS will likely have to pay a financial settlement to resolve the case.

#### NEW MINING CODE

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¶8. (SBU) In May, 2007, the GOS revised its mining code and created a "special investment law" to attract capital investment into

DAKAR 00000227 002.2 OF 002

Senegal's mining sector. For investments over USD 500 million, the new code provides exceptional fiscal and customs arrangements, including lifetime exoneration on customs duties for related imported goods; exoneration of VAT, fiscal, employer, and corporate taxes, and taxes on profits. Within the code, however, an investor must provide a 10 percent stake to the government and also be open to the participation of a local investor for 10-20 percent of the project. Diouf explained that in the case of Mittal, no local investor could raise the funds to become a minority partner. The GOS, however, was ceded its 10 percent, according to Diouf.

#### SENEGAL'S MINERAL POTENTIAL

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¶9. (U) Diouf asserted that the mining sector presents considerable opportunities since the country has additional exploitable resources in phosphates, attapulgite, iron, gold, copper, peat, marble, gas, titanium, limestone, and uranium. He highlighted Senegal's success in attracting Mineral Deposits Ltd. (MDL) an Australian mineral sands mining company that is currently producing gold and will soon begin a new USD 190 million venture in zircon, as proof that Senegal will increasingly benefit from the mining sector.

¶10. (SBU) Diouf also indicated the GOS' management of the sector needs to be revised, due largely to uncertainty in Miferso's status.

The parastatal, whose official name is the "Societe des Mines de Fer du Senegal Oriental" (The Eastern Senegal Iron Mines Company), was established for the sole purpose of attracting a foreign investor to the Faleme iron deposits. Now that its mission is almost complete, Diouf cannot yet say if the firm will continue to help the Ministry of Mines and Industry as the counterpart entity for new potential investors. Miferso is in actuality a joint venture between the Government of Senegal (82 percent of shares) and the French Bureau de Recherches Geologiques et Minieres (BRGM) which holds 18 percent.

Before changing Miferso's status, the GOS may be required to buy out the BRGM shares. At that point, Miferso may become a more comprehensive implementing agency for Senegal's mining activity.

COMMENT

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¶11. (SBU) Senegal's mining activity has long been dominated by phosphates production. Now, the GOS has demonstrated the strategic importance it places on jump-starting Senegal's minerals sector by offering huge tax incentives and a willingness to negotiate deals privately and swiftly. While we have concerns about the opaque and non-competitive manner that the Mittal agreement was reached and the precedent it sets (including the GOS' treatment of Kumba), there is no denying that Mittal's potential investment in infrastructure improvements could greatly enhance Senegal's rural economy.

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